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Growth Strategies: Growing with the Flow

A look at how various Inc. 500 companies achieved high growth in flat and perishing markets.

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Achieving high growth in an expanding market is tough enough, but how do companies make the Inc. 500 while battling it out in developing, flat, or -- perish the thought -- declining markets?

Gadi Rosenfeld was in a lousy business. He and his partner, Dan Court, had seen how much local-area networking of office computers had grown, and so in 1989 they started a business to install local-area networks (LANs) in law offices. But they were too late.

No sooner had Rosenfeld and Court entered the market than they realized that, although it was growing, it had attracted a flood of entrants -- and the competition was hurting profitability. "Margins kept on slipping," Rosenfeld says. "This business was becoming a commodity."

Rosenfeld and Court could have tried to tough it out. Instead they sought a way to make their company distinctive. They began to specialize in scanning legal documents into the computer and then storing the information on CD-ROMs. To date, New York City-based Legal Information Technology has grown from sales of \$120,000 in 1989 to \$6 million in 1993, and it is #36 on this year's *Inc.* 500 list. Although the company still does systems integration and LAN installations, Rosenfeld estimates that 85% of its business now consists of scanning information onto CD-ROMs and coding it. By switching to a less-developed market, Rosenfeld and Court have been able to command higher margins.

Whether he's conscious of it or not, Rosenfeld is exploiting the product life cycle, one of the hoariest of marketing concepts. Open any introductory-marketing textbook and you'll find it: a hill-shaped curve that represents the way a market's sales grow, plateau, and then someday decline as that market goes from birth to obsolescence. The curve is usually divided into four stages: introduction, during which a new market struggles for acceptance; growth, during which sales begin to take off and new competitors appear; maturity, during which sales growth levels off, unless producers develop new uses for the products or services; and decline, during which sales fall because of some new alternative. Experts argue

about the usefulness of the product-life-cycle model, particularly of its later stages: obviously, some products -- say, vegetables -- can linger in maturity for centuries without any signs of decline, while others are rejuvenated and start another upward surge. Still, there's some powerful truth behind the notion of a life cycle in markets. The product-life-cycle theory predicts, for example, that in the latter stages of a market's growth, the growth will attract a great many new competitors, which will put pressure on prices and individual companies' margins. That sounds an awful lot like the situation Rosenfeld and his partner faced in the LANs-for-law-offices business; unwittingly, they had entered their market too late. By switching to the scanning-and-imaging business, Legal Information Technology effectively moved to a different curve -- one in which the company could start earlier, at which point the profit potential was greater and the competition less intense.

Intuitively, we'd expect most *Inc.*

500 companies to be in emerging or growing markets; after all, it's easier for a new entrant to grow quickly in a market in which there's enough growth to go around. And, in theory, entrepreneurial companies should do best in those phases: once a market reaches maturity, it often becomes big enough to be served primarily by big companies, many of which may have started out small and grown with the industry. Sure enough, the *Inc.*

500 includes a disproportionate number of companies in areas of the economy that are experiencing new growth. To prove that to yourself, scan the list and try imagining what the economy would be like if it were a mirror of this year's *Inc.*

500. It would be a pretty weird place: for every restaurant (there are two on this year's list), there'd be at least a dozen companies distributing computer hardware. It would be easier to spot a systems integrator than a supermarket. And there'd be scads of telecommunications companies -- but just try finding a plumber.

You get the picture: an equal-opportunity representation of the economy this is not. Still, the *Inc.* 500 does contain plenty of representatives of mature businesses, from Contract Manufacturer (#58), which builds trailers, to Pencils (#405), which sells office supplies. How, we wondered, do companies' growth strategies vary with the stage of the market in which they operate? To find out, we interviewed 20 *Inc.* 500 companies, chosen to represent a variety of stages of industry life cycles.

Perhaps the most striking finding of our research was the extent to which *Inc.* 500 companies have grown because of their willingness to change plans and directions quickly, as Gadi Rosenfeld did. Of the 20 companies in our sample, almost half either changed direction substantially in the course of growth or grew out of opportunities a founder had spotted while running a previous company. These entrepreneurs have flourished because of their willingness to be flexible, to follow changing markets toward growth. If one product or service proved too mature or too competitive, they'd often shift resources to another, related market in an earlier stage of the product life cycle or seek some submarket in which they could compete more effectively. The process of developing a fast-growing small entrepreneurial company -- if these 20 companies are representative -- is one of trial and error, in which success belongs to the CEO who is least attached to his or her original plans. What that means is that almost any company owner can try to play the rapid-growth game -- any company owner who is willing to be flexible, that is. If growth is on your agenda, consider the following queries, which we developed from our conversations with this year's *Inc.*

500 and roughly categorized by the stages of a market's life cycle. (Note that some companies appear in more than one category because their markets have gone through profound competitive change in just a few years.)

* * *

Growth in a Developing Market

First, you have to persuade customers that they need you

For companies trying to grow in the developing stage of a market, the big challenge is gaining market acceptance. During this stage, participants are still educating the market about their newfangled good or service, and the biggest competitors are the established ways of doing things .

Pluses: *Big potential for growth*

Minuses: *Big potential for failure*

If that's the type of marketplace you're exploring, consider these observations of Inc. 500 CEOs who started their companies in new markets:

1. Can you become a supplier to an infant industry rather than a direct participant in it? Think about it this way: comparatively few of the miners who followed the lure of the California gold rush became rich, but Levi Strauss, who made their jeans, founded a company that now has \$5.9 billion in sales. By supplying products or services for the new start-ups in an emerging industry, you reduce your risk: whether or not the market those start-ups are pursuing ever develops, yours already exists -- at least for a while. Plus, that initial market is often a tight-knit community well suited to small-company marketing styles, as Gregory Swistak, founder of Factura Composites (#305), in Rochester, N.Y., discovered. Factura constructs interactive multimedia kiosks for use in places like malls and airports; it's a business Swistak stumbled into while doing work for a former colleague. Swistak launched the company in 1986 by borrowing his friend's file of information and clippings about the interactive-kiosks industry, such as it was. With that sophisticated database in hand, Swistak began making cold calls to the people he'd read about, using his newly completed project as a track record. Factura Composites' main competition at the time, as far as Swistak could tell? People who were making their own kiosks or hiring the kitchen-and-bathroom contractor down the street to do so.

Swistak's customers could readily see how his services worked; in contrast, most participants in an emerging market have to spend time explaining their offerings. In 1988, when Mike Van Dalsum Sr. of Oasis Imaging Products (#15), in Hudson, N.H., started out as a one-person remanufacturer of laser-printer cartridges, he not only had to sell his service to businesses but also had to explain the service -- during a cold call, no less. Once Van Dalsum switched from remanufacturing cartridges to supplying other remanufacturers, the sale got a lot easier -- and sales took off with the market, growing from \$118,000 in 1989 to \$11 million last year.

2. Are you prepared to be in the education business -- as well as your original business? Legal Information Technology's founders saw early on that their business would entail a lot of customer education, so they began giving seminars to educate law firms about imaging and CD-ROMs. Resolute Systems (#66), in Brookfield, Wis., also had to take on the role of guide. "We spent a lot of money educating" the marketplace at first, says James Dutton, CEO of the company, which supplies alternative dispute-resolution (ADR) services, an alternative to litigation. That kind of marketing evangelism is necessary internally as well as externally, notes Marion McGovern, president of M2 (#223), a San Francisco-based supplier of managers for short-term assignments. As M2 has grown, McGovern has found she must sell the concept of temporary executives not just to potential customers but also to potential salespeople for the company.

3. Are there alternatives to advertising to reach your customer? If customers don't know what your product or service is, they're unlikely to be looking for it in the Yellow Pages. Several of the emerging-industry veterans we talked to still don't use advertising. Perhaps it's no coincidence that all the *Inc.*

500 companies we identified in developing markets are in business-to-business markets, so they don't have the expense of either reaching or educating a mass consumer market. Instead they face more manageable marketing challenges -- for instance, selling directly with the aid of referrals and manufacturers' representatives, the way Factura Composites does.

4. Can you bring an established concept to a new location? On one hand, a market full of sophisticated users is more likely to try brand-new products and services: Legal Information Technology, for example, is happy with its location in legal-hub New York City. On the other hand, if you can bring a concept established elsewhere to your hometown, you can (for a while at least) enjoy the limited competition that characterizes the introduction stage, without having to go through all the educating and trial and error of the pioneers. Resolute Systems founders James Dutton and Gregory Borca, for example, were able to get

into the ADR business after reading about its growth in the *Wall Street Journal* and determining that ADR was little used in the Milwaukee area. Because their industry had a track record elsewhere, Borca and Dutton were able to use library research on ADR usage to identify a promising target market to start off with: the insurance industry. Resolute had an additional advantage: although most of its initial prospects weren't yet using ADR, they had at least heard of it.

5. Can you systematically target the early adopters in your market? Today Wayne Miller of MicroVoice Applications (#5), in Minneapolis, sells voice-mail software to all kinds of newspapers to automate their personal ads. But when Miller and his partner, Steve Lazar, started the business, in 1989, only one type of newspaper would buy: small weeklies. Larger weekly and daily papers were too conservative, Miller found, to try a system that different, but the smaller weeklies that competed with them were often more aggressive. Miller's first client, a weekly newspaper, was willing to give MicroVoice references to similar newspapers around the country, and the business began to take off. "We moved through that industry like dominoes," Miller recalls. Still, the company couldn't break into the large dailies. MicroVoice had to use its track record at the weeklies to finally make a sale at a small daily; it then gradually built up credibility with larger papers, which Miller estimates now constitute about 80% of MicroVoice's customers.

6. Ask yourself: how can I gain stature in the marketplace? Stature is the missing ingredient for many new products and services. Miller, for example, originally ran a small personals-by-phone service and realized that his business needed credibility to flourish. By forming partnerships with papers, MicroVoice has been able to grow rapidly, from sales of \$168,000 in 1989 to \$25.7 million last year. In exchange, of course, MicroVoice has to make its partnerships worth the newspapers' while; the company installs its software without charge to the papers, and takes a cut from each call made through the personals system.

Another route to credibility in a developing market is public relations. The very novelty of your product or service may make it newsworthy: M2, for example, was featured in Tom Peters's *Liberation Management* for its innovative approach. Afterward, the company got inquiries from as far away as South Africa.

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Growth in a Growing Market

Satisfy Your Customers or Someone Else Will

With any luck, a market won't stay in the development stage forever. Once a market begins to grow rapidly, it is -- for a little while -- everybody's dream: growth and profits come easily in a market in which everyone's growing. But rapid growth of a market quickly attracts new competitors, causing a decline in each company's profits. More competition and demand lead companies to expand their product lines in an attempt to satisfy consumers with more-customized wares. By the end of the growth phase, the winners can be quite large -- and the losers can be out of business. The challenge: to make customers choose your brand.

Pluses: Enormous growth opportunity

Minuses: Increasing competitive pressure and turbulent markets

If you see opportunities in a growth market, consider these thoughts from Inc. 500 CEOs:

7. Are you as visible as possible in the marketplace? Perhaps one sign that a market is shifting from the development stage to the growth stage is that it starts making more sense to advertise. For Van Dalsum of Oasis Imaging, that shift came in August 1990, when his industry established its first trade journal and he suddenly had a logical place to take out ads. Since then, Oasis's market has become far more competitive, but in the idyllic early days of the growth stage, Van Dalsum's biggest marketing challenge was answering all the phone calls his ads generated and filling the orders.

8. Is your company structured for growth?

This is your chance to become a big player, if that's where your ambitions lie. Dutton of Resolute Systems

wants to do just that in ADR, so the company is opening branch offices in new regions and raising additional private capital.

9. How will you respond to new competitors -- particularly when they compete on price? Have you explored ways to tie customers or suppliers to you? If your market is truly growing, it's inevitable that many new competitors will surface. They can take a toll on existing companies in the marketplace by offering improved products and services or lower prices. Resolute Systems found that out the hard way. The company had spent a lot of time and money recruiting retired judges as mediators. Then, Dutton says, new companies entered the market, signed contracts with the same judges, and offered a lower price. His solution? Resolute now signs exclusive contracts with its judges.

10. Are you too late?

As Rosenfeld of Legal Information Technology learned, it's tough to be a me-too competitor that enters a rapidly growing market in the late, ultracompetitive stages of growth, when the easiest profits have come and gone.

If you're late, sometimes it's best to try to cut your losses -- and move on to a newer market. When George Archuleta took over the failed San Jose-based Alantec to turn it around, he looked hard at the company's technology in bridges that connect computer networks and decided it was too little too late. Archuleta restarted the company by developing a newer switching technology. Alantec's sales rose to \$ 13.6 million -- compared with sales of a mere \$647,000 just two years before. Alantec, #85 on this year's list, went public last February. "It was a total switch in market sectors," Archuleta says.

11. Have you thought of ways to broaden your line of products or services? If you don't give customers precisely what they want in a growing market, someone else quickly will. In addition, a growing market has more complex needs than a developing one. Just one example: Van Dalsum recalls that when he first entered the cartridge-remanufacturing supply business, he needed only five or six products. Today his business offers its remanufacturing customers about 400 products, as well as services like ad design.

Companies facing the increasing competition of a growing market often turn to new products, trying to use their established customer base to their advantage. MicroVoice, for example, is launching new products for its newspaper customers, such as services that distribute stock-market information to readers by phone. Still, Miller estimates that 80% to 90% of the company's 1994 sales will come from its core personals business.

12. Are you ready -- organizationally and psychologically -- for extraordinary market turbulence and change?

Consider the case of George Archuleta of Alantec. As recently as 1993, Archuleta's competitors were primarily emerging companies similar to his own. Then Alantec's market got hotter, and larger companies acquired four of its competitors. This past summer one of Alantec's big-company strategic partners announced a merger with one of Alantec's rivals, effectively putting an end to the strategic alliance. Now Archuleta must look for new distribution methods while facing much larger rivals.

In some fast-changing markets CEOs structure their companies to exploit rapid change. Glenn McCusker of Viking Components (#126), in Laguna Hills, Calif., for example, makes add-on memory for personal computers. McCusker has organized his business so that as soon as a manufacturer introduces a new computer model, Viking begins work on an add-on memory product for it. As a result, McCusker claims his company can get its product to market in as little as 10 days after the manufacturer's introduction. Why is such breakneck speed so important? McCusker estimates that he has only about a three-month window between the time a manufacturer brings out a new model and the time memory for it becomes a commodity. That's a strong incentive to move quickly.

* * *

Growth in a Mature Market

The pie is now finite. Stake out your niche and defend it

All good things must come to an end, including periods of rapid growth in an industry. When a market's expansion levels off, that market is said to be mature, with little new growth in demand. Sometimes a mature market will be dominated by small local enterprises (hair salons are an example), but if not, mature markets are often inhospitable to new entrants. That's particularly true if small companies must compete directly with large ones in a zero-sum game -- one in which the large companies' marketing and distribution clout is an important advantage.

Pluses: A proven market that's easy to identify***Minuses: A constant battle for market share***

Why would anybody try to grow a company in a mature field? Sometimes entrants into such a field are classic cases of entrepreneurs inspired by an idea. For example, Ralph Marlin & Co. (#179), in Hartland, Wis., manufactures U.S.-made men's apparel, particularly ties -- the kind of mature or even declining market that would make venture investors shudder. But founder Mark Abramoff wasn't thinking like a venture capitalist when he launched his company; he says he thought up the idea for a novelty necktie with a fish on it while he was sitting in a bar with friends. Less than nine years later he has a \$13-million specialty-apparel business.

Then, too, there's the "I've been in this business my whole life" explanation. For Dan Basler and his brother Douglas, of Oakville Forest Products (#459), in Oakville, Wash., the moment of truth came when they saw their employer -- their father's sawmill -- sold at auction in 1985. Dan was 33, his brother was 26, timber was what they knew -- and, as Dan puts it, "we had a lot of years left to work." Eight years of hard work later, the business they started, Oakville Forest, is a fast-growing \$7.3-million company in a distinctly low-growth industry.

A mature market may not be the ideal place to grow, but growth can certainly be achieved. Here are some thoughts on how:

13. Do you really have a significantly "better mousetrap" to offer the market? If so, can you protect it? In the brutal world of the mature market, in which existing competitors would love to make what you make, only faster and cheaper, a patent or a license can be a plus. MicroFridge, of Sharon, Mass., together with its manufacturing partner, got a patent on one aspect of its combination microwave/freezer/refrigerator unit. And becoming a licensee of a famous name, as Ralph Marlin has done with some of its novelty ties, at least reduces the number of direct competitors.

14. Can you identify a submarket in your industry in which your small size can provide an advantage?

In that market, how can you solve customers' problems in ways larger companies can't? Such a market can provide a little protection from the competitive storm. Abramoff of Ralph Marlin achieved most of the company's growth in specialty markets. He supplies museum shops and sports shops, developing ties (and sometimes other apparel) that fit his customers' markets; for example, he might provide ties featuring impressionist paintings to art museums. Similarly, Bob Bennett, president and CEO of MicroFridge, identified university dorms as a major market. His strategy: to make the purchase of MicroFridge units one step in university administrators' efforts to increase their residence-hall occupancy rates. Bennett views MicroFridge's contacts with college administrators as a major strategic asset, and the company plans to develop new products specifically tailored to dorm-room use.

15. Is a new method of distribution a possibility? In any case, have you prepared for distribution obstacles? Menderes Akdag has grown Lens Express (#284), in Deerfield Beach, Fla., to \$34.7 million in sales by developing a nontraditional distribution channel for ordinary contact lenses: direct mail. Such lenses are normally sold through eye doctors or eye-care chains, but Lens Express's founders realized that mail order was an option for replacement lenses if no new prescription was needed. Lens Express has encountered plenty of resistance from the traditional distribution channel: according to Akdag, many doctors refuse to release prescription information for patients who want to use Lens Express. To this day,

Akdag reports, the company cannot buy its lenses directly from the major manufacturers.

16. Are there opportunities visible to you that are not visible to outsiders to your industry? Both Buschman Corp. (#437), in Cleveland, and Daydots Label Co. (#218), in Fort Worth, have grown because their founders were able to identify new opportunities as suppliers to mature industries -- opportunities many people would never have been in a position to see. Mike Milliorn of Daydots had worked as a salesman in the label business; as a result, he saw a market for color-coded labels with days of the week on them that restaurants could use as a system for food-inventory control. As a mechanic at a paper company, Thomas Buschman saw an opportunity to build an improved version of a certain kind of rod used in the paper-manufacturing process. He built a one-person business doing that, and grew from \$394,000 to \$2.7 million in five years.

17. Are you prepared to change, change, change, as competitors follow your every footstep? Even in his niche market of specialty shops, Mark Abramoff isn't safe: he now worries that Ralph Marlin & Co. has gotten large enough to attract big competitors' attention. Even narrowly defined markets aren't immune: Daydots' color-coded-food-label niche has attracted a number of competitors. To grow their company to \$4.5 million in sales, Barbara and Mike Milliorn have remained flexible; they also use their label equipment to manufacture custom labels for other companies' packaging.

* * *

Growth Declining Market

Think countercyclical. Think international. Think about adapting what you sell to the changing environment

While there are plenty of companies in mature industries on the *Inc.* 500, there are few whose industries are actually declining. That's no surprise: the road to *Inc.* 500 status is seldom paved with sales of minicomputers or typewriters.

Pluses: Some competitors will probably leave the market

Minuses: There's a reason for that

We did find one entrepreneur on the *Inc.*

500 whose industry comes arguably close to being in decline. Pamela Coker's company, San Diego-based Acucobol (#226), makes a compiler for COBOL, the ancient computer language that we thought was past its prime, to put it delicately. Coker argues to the contrary that 5 billion new lines of COBOL programming are written each year.

Still, Coker's industry has some of the classic hallmarks of decline: the product is seen as old-fashioned, and more-modern alternatives abound. Meanwhile, Coker has a thriving business helping companies transfer critical existing COBOL applications -- such as payroll and invoicing -- to newer machines on their networks. And, rare as it is to be a growing company in the latter days of an industry's life cycle, Acucobol has one thing going for it that few other growth companies can match: Coker says she has *fewer* competitors now than when she entered the business. That lack of competition translates to a healthy bottom line: Acucobol's reported after-tax profitability is in the 11%-to-15% range. "Everybody thinks COBOL's dead," Coker says cheerily. "The negative press has provided this hidden, secret market for us."

Some thoughts about life in declining markets:

18. Can you diversify into related but growing fields? That's the strategy that launched Aspen Health Services, of Huntington Beach, Calif., #413 on this year's list. Aspen's business has its roots in College Health Enterprises, which operates residential psychiatric hospitals for troubled teenagers, a market that is experiencing at least temporary overcapacity as insurers crack down on mental-health expenditures. "It's been tough," says Elliot Sainer, who is president of both Aspen and College Health, describing the "tremendous contraction" College Health's industry has seen. "We're just going to fight to be one of the survivors."

That's why Sainer helped found Aspen, which offers what it calls "outdoor therapy": trips for teenagers that combine wilderness living with traditional therapy. While that related market taps its founders' knowledge, contacts, and skills, Aspen is able to grow by selling insurers on a product that is short-term and intensive -- and thus may cost less than a longer hospital stay.

19. Are there markets in which your product or service is not yet showing its age? In Acucobol's case, Coker notes that there are many countries in which COBOL remains a dominant language. Fifty percent of Acucobol's business is done overseas, she says.

20. How can you position your product or service to emphasize solutions to a client's problems? Can you use the installed base to your advantage? As in a mature market, no one is likely to get excited by your product or service in a declining industry. Coker is, as a result, putting all her salespeople through a course on consultative selling. She pitches her product not in terms of COBOL but in terms of Acucobol's ability to provide solutions to customers' business problems.

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